The Role of Asian Overconfidence in Decision-Making

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ABSTRACT

We discuss theory and research to overconfidence in Chinese decision-making, owing largely to a preferred decision-making approach (e.g., Yates and Lee, 1996) and reflected in riskier personal and business decisions. Specifically, the Chinese are held to make decisions based on a convergence dynamic, reconciling decision alternatives with a sense of what is already known or widely accepted. This contrasts with the Western tendency to weigh the merits of opposing arguments. Chinese overconfidence is thought to stem from Confucian cultural values, collectivist social norms and social diversification of risk, and a tolerance for ambiguity and open-endedness stemming from low uncertainty avoidance (Hofstede, 1980; Hofstede 2003). Despite the overconfidence phenomenon, the Chinese are nevertheless thought to be risk-averse in the social realm, due to the cultural premium placed on maintaining “face”, i.e., personal/familial reputation (Cardon, 2009). Though relatively aggressive in business decisions respecting profits, the most important cultural feature in the Chinese social realm is to preserve face, unlike in the United States. Finally, research also shows that Chinese overconfidence, in addition to impacting business-related decisions, has a pronounced culture-related effect on survey response bias (e.g., Yu, Keown, & Jacobs, 1993) leading to an extreme response style in surveys employing Likert-type items.

INTRODUCTION

It is perhaps assumed among some portion of practicing business professionals, that decision-making styles and orientations are roughly similar from one country to the next. A great deal of relevant theory and research suggests otherwise (e.g., Li, Bi & Zhang, 2009; Seok, 2007; Wright & Phillips, 1980; Yates, Lee & Shinotsuka, 1996). With the strong and longstanding growth in trade between North American and Pacific Rim countries, understanding differences in decision-making approaches becomes increasingly relevant. Theory and research in this area suggests that American managers are inclined to evaluate the pros and cons related to a decision, which are typically mulled over multiple times before a determination is reached. Asian cultures, and the Chinese in particular, are thought to make their business and personal decisions in a manner that has been characterized in the research literature as “Asian overconfidence” (Yates and Lee, 1996; Seok, 2007). Li, Chen, and Yu (2006) define overconfidence as a tendency to make decisions based on questionable assumptions resulting in less than optimal decisions. A number of cultural characteristics are held to play a role in decision overconfidence among Asian populations. This paper will provide an overview of several key factors accounting for differences in decision-making between Chinese and Western managers, which are most pronounced between Chinese and North American managers.

First, we will discuss the legacy of Confucianism in the Chinese culture and its effects on decision-making and a related topic, survey response bias (e.g., Yates, Lee, & Bush, 1997). Next, the implications of Hofstede’s cultural dimensions of (1980, 2003) Collectivism and Uncertainty Avoidance for Chinese decision-making, relative to that found in the West, will be addressed. Finally, we will briefly discuss
additional cultural factors either mitigating or complementing Asian overconfidence in decision-making, including the importance of preserving face (e.g., Li et al. 2009) and leadership-related values from the Confucian legacy such as the emphasis on hierarchy and respect for age and tradition (McDonald, 2011).

**FACTORS IN ASIAN OVERCONFIDENCE**

**From the Decision-Making Literature**

In the decision-making literature, considerable research has found that the Chinese are overconfident in their judgements and evaluations (e.g., Cardon, 2009, Lee, Yates, Shinotsuka, Singh, Ongiatco, Yen, Gupta, & Bhatnagar, 1995; Yates, Lee, Levi, & Curley, 1990; Yates, Zhu, Ronis, Wang, Shinotsuka, & Toda, 1989). In this view, overconfidence in regard to general knowledge and opinions is more than an artifact of decisional style, but rather rooted in substantive cultural/cognitive differences (Yates et al. 1997). Yates et al. (1996) hold that Chinese decision-makers (and survey respondents) fail to consider the pros and cons of given proposition and thus tend to be overconfident about their judgements.

In this view, the best means of acquiring knowledge in the Chinese culture is not through debate over competing ideas, but through attaining an understanding of what is already known and accepted as correct. Learning is seen primarily as emulation, the acquisition of ideals, practices and procedures that have general acceptance and have stood the empirical test of time. This type of evaluation contrasts with that favored in the American culture which emphasizes critical thinking and assumes that weighing the merits of opposing viewpoints is beneficial.

A number of studies have shown that, while virtually all countries sampled demonstrated some level of overconfidence with respect to probability judgments about general knowledge and opinions, overconfidence among Chinese subjects is relatively extreme (Wright & Phillips, 1980; Yates et al., 1990; Yates et al., 1989). Such studies typically ask respondents to give a response related to general knowledge, such as the population of Jakarta chosen from multiple alternatives, and then ask them to estimate the probability that they are correct about this fact. Evidence from the decision-making literature suggests that overconfidence in the knowledge and assumptions that underlie decisions has a pervasive influence in the ultimate choices made, and this has major implications for the optimality of decision-making in a business context.

**Research Addressing Survey-Related Bias**

Consistent with support for Chinese overconfidence are studies empirically demonstrating extreme response bias using multiple-response rating formats (Adler, Campbell, & Laurent, 1989; Stening & Everett, 1984; Yu et al., 1993). This literature stream indeed explicitly argues that Asian overconfidence perspective has major implications for survey assessment using Likert-type items, a ubiquitous methodology in business’s approach toward attitude assessment - on the part of customers and/or employees, for example. The rationale for this position is that Chinese survey respondents, rather than considering conflicting arguments, rationales, and evidences in selecting a value on a multi-point scale, employ a sense of whether the statement is consistent with relevant accepted thinking or traditional folk knowledge. Thus, they should be less prone to choose middle values on the numerical index associated with semantic differential or Likert-type items, which imply ambivalence or compromise between conflicting rationales or bases of support (e.g., values 3, 4, and 5 on a seven-point scale). In this view, the same cultural tendencies should make Chinese respondents more likely to choose extreme values on such multi-point scales (e.g., 1, 2, 6, and 7 on a seven-point scale). Again, this would stem from
overconfidence and the failure to consider opposing factors and considerations which, if more fully recognized, would mitigate toward selection of midrange values.

The Role of Collectivism and Uncertainty Avoidance

In addition to the Confucian “folk wisdom” norm, other major cultural factors likely play a role in Chinese versus Western decision-making. For example, Hofstede’s original landmark study (1980), resulted in four dimensions of cultural differences, and with respect to the American culture compared to the Chinese, some argue that the most important dimension is individualism-collectivism (Li et al., 2009; Li et al., 2006). In the Hofstede-related literature (1980) a collectivist culture, “...family members will step in to help any group member who encounters a large and possibly catastrophic loss,” (Li et al., 2009). Thus, since more help from others is available, decision-making is made collectively, and individuals operating within one or more cultural groups may feel relatively sheltered from the adverse effects that more risky choices might entail.

In contrast, in individualistic countries such as the United States, individuals are less comfortable with collective decisions, preferring to make them on their own. This results in individuals tending to feel more exposed in situations involving higher risk, because there is less help from other counterparts in their cultural group enabling them to bear the consequences. Those in individualistic cultures then undertake less risky choices as a result, in contrast to those operating in an environment of cultural collectivism, which has the effect of providing social diversification of risk (Li et al., 2006).

Consistent with higher propensity for risk-taking in personal business on the part of the Chinese, China is low on Hofstede’s (1980) uncertainty avoidance dimension (Li et al., 2006). This means, for example, that laws and rules may be flexible to suit the actual situation in order to preserve face. The Chinese are very comfortable with ambiguity and are known for being adaptable and entrepreneurial, according to Hofstede.

It is worth noting that some of Hofstede’s (1980) discussion of Chinese cultural norms would seem to mitigate in an obverse manner to the risk-taking perspective discussed above - but only with respect to Chinese decision-making involving social concerns and familial reputation (Cardon, 2009). Hofstede (1980) argued that the Chinese are highly restrained socially, meaning that though they are willing to take risks, they also feel that their actions are restrained by social norms in order to prevent harm to their familial reputation. This would seem to incline the Chinese towards less risk rather than more - but only when personal/familial profile and image is particularly salient and in play. In other words, reputational concerns may well lead to a bias towards caution, at least in decisions and actions that are largely personal and/or familial in nature.

Additional Factors Relating to Chinese Decision-Making

A key feature in this Chinese aversion to personal and social risk-taking is the concept of “face”, a cultural feature found in much of the world, and especially strong in traditional cultures. Face is essentially a measure of one’s position in social networks and is built up by a history of socially sanctioned behaviors (Cardon 2009). According to Cardon, without face, one’s opportunities in the Chinese collectivist society are greatly diminished. So key is this aspect of Chinese culture, that Cardon recommends that Western businesspersons understand fully the dominant face practices in common Chinese business-related interactions, if they seek to effectively conduct business operations in the Chinese context. Such caveats regarding Chinese decision-making are important for business
professionals to understand and point to the need for more research regarding conditions that may influence and mitigate Chinese overconfidence in decision-making.

Consistent with the view that the Chinese and other Asian cultures tend toward social diversification as a means of minimizing risk, Weber, Hsee, and Sokolowska (1998) addressed differences in proverbs between countries. Chinese proverbs were judged to provide more risk-seeking advice than American proverbs, while American proverbs were judged to advocate less risk (Li, et al., 1996). Li and colleagues argue, however, that this true only in regard to financial risks. Though the Chinese appear much more open to risky decisions in business and personal terms, they are thought to be very cautious in the social realm, as mentioned previously. In the social sphere, they choose to avoid risks that could cause them social harm. Overall, the proverb-related findings of Li and colleagues (1996) were congruous with both cultural and national reputed differences in risk taking.

Another factor explaining the phenomenon of Chinese overconfidence stems from the history of the Chinese and their Middle Kingdom. Some have (2015) related this history, dating back to the influence of Confucianism, to a tendency toward nationalism (Link, 2015; Tang and Dan, 2012), which in turn causes them to be overconfident. Link (2015) expands on the notion of what it means to be Chinese and he argues that being Chinese means “...thinking, behaving, and living in a society in accord with heaven-sanctioned principles exemplifying the best way to be human.” Traditional Chinese values, i.e., Confucian values, though often ethical, were not always egalitarian, according to Link (2015). Political norms were based on the family model, which was influenced by Confucianism. A ruler had absolute power over his subjects but was morally bound to treat them properly.

Other historical societal values in China, stemming from the Confucian influence on decision-making include those of kinship, loyalty and righteousness (McDonald, 2011). Confucius created a moral guide for both the government and society that promotes hierarchy, group orientation, and respect for age and tradition. McDonald argues that these values are still important in China’s modem-day society and Confucian values remain a major cultural force underlying leadership practices in China, as well as other societies in the Pacific Rim.

According to McDonald (2011), most Chinese CEOs manifest Confucian ideology in their leadership practices. This means that effective leaders in China have to first “discover and cultivate” themselves, including moral development, in order to serve as a proper role model. In this view, typical business leaders who exemplify Confucian values normally portray a quiet, humble persona who earns respect based on a sense of relationship. In terms of business strategy, such leaders will be hard-working and ambitious, but they will ordinarily not be seen as aggressive (McDonald, 2011). Nonetheless, leaders in accord with these ideals are expected to exhibit drive and achieve results, while protecting subordinates in an atmosphere of patience.

Maoism, though distinct from Confucian leadership ideals, has also played a huge role in Chinese society and the way business leaders behave (McDonald, 2011). Mao, having come of age during the last final collapse of the Qing Dynasty, was heavily influenced by both Marxism and Leninism. According to McDonald, Mao was attracted by the idea of mounting a revolution in an agrarian context with little industry and a small proletariat. Business leaders following the values of Maoism are ones who portray themselves as selfless, hard-workers who put the demands of the organization ahead of their own personal balance, needs, and development. According to McDonald, this leader will focus on the competitive aspects of the business, be driven, and have little time for contemplation, consideration, or patience. Thus, Chinese leaders are subject to historical influences ranging from dialectic values (Maoism) to harmonious values (Confucianism).
In McDonald’s study examining which of the two ideologies played the largest role among business leaders in China (2011), it was found that both were manifest in almost an equal proportion across the sample of chief executives analyzed in the study. Nonetheless, McDonald credits the unyielding aggressiveness within the culture, indicative of the Maoist spirit, for helping to transform China from a feudal agrarian society to a global power, both politically and economically. On the other hand, McDonald argues that the value of “he” (harmony) and the wisdom of the traditional Confucian culture provided a powerful complement to dialectics-based ideology.

**CONCLUSION**

In summarizing research in Chinese decision-making, we first point out that research suggests that Chinese overconfidence is largely a function of a preferred decision-making approach/process. Specifically, the Chinese come to a decision based on a convergence dynamic, reconciling decision alternatives with what a sense of what is already known or widely accepted. This contrasts with the Western tendency to weigh the merits of opposing arguments in the decision-making process. In contrast to the Chinese overconfident style in personal and business decisions, the Chinese nevertheless are risk-averse in the social realm, reflective of the longstanding cultural values of Maoism, Confucianism, and collectivist social norms. While the Chinese may be relatively aggressive in their business decisions with respect to profits, the most important cultural feature in the cultural/social realm is to preserve face, unlike in the United States.

Hofstede’s (1980) cultural dimensions of Collectivism and Uncertainty Avoidance also go a long way in illuminating the origins of Chinese tendency toward overconfident decisions, in particular through discussions of the social diversification of risk and acceptance of ambiguity and open-endedness in their affairs. In building awareness of the Chinese approach to decision-making, it is important to remember current societal and cultural trends and consider the cultural influences of both Mao and Confucius on both society and business leaders.

**REFERENCES**


